



## NHS Fife

# 2022/23 Annual Audit Report to the Board and the Auditor General for Scotland

June 2023



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# Key messages

## Financial statements audit

<b>Audit opinion</b>	Our independent auditor’s report is unqualified in all regards.
<b>Key audit findings</b>	<p>We have obtained adequate evidence in relation to the key audit risks identified in our audit plan.</p> <p>We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.</p> <p>The accounting policies used to prepare the financial statements are in line with the NHS Accounts Manual and are considered appropriate.</p> <p>All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately.</p> <p>NHS Fife (the “Board”) had appropriate administrative processes in place to prepare the annual report and accounts and the required supporting working papers.</p>
<b>Audit adjustments</b>	<p>One audit adjustment has been identified in respect of the accounting treatment of the National Treatment Centre. The impact of this has been to increase net expenditure and reduce net assets by £9.1million. Scottish Government allocations have also been amended to reflect this adjustment.</p> <p>No unadjusted differences were identified.</p> <p>We identified some disclosure and presentational adjustments, all of which have been reflected in the final set of financial statements.</p>
<b>Accounting systems and internal controls</b>	<p>We have applied a risk-based methodology to the audit. This approach requires us to document, evaluate and assess the Board’s processes and internal controls relating to the financial reporting process.</p> <p>Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we include these in this report. No material weaknesses or significant deficiencies were noted.</p>

## Wider scope audit

<p><b>Financial Management</b></p> <p>Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p><b>Auditor judgement</b></p> <p>Risks exist to achievement of operational objectives</p> <hr/> <p>NHS Fife achieved its financial targets in 2022/23, although financial brokerage of £9.728m was required from the Scottish Government.</p> <p>We identified no significant weaknesses in accounting and internal control systems during our audit.</p>	
<p><b>Financial Sustainability</b></p> <p>Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services and the way in which they should be delivered.</p>	<p><b>Auditor judgement</b></p> <p>Significant unmitigated risks affect achievement of corporate objectives</p> <hr/> <p>NHS Fife continues to face major risks to achieving financial balance while responding to the unprecedented challenges of recovering from the COVID-19 pandemic. Risk and uncertainty in relation to funding levels, workforce-related cost pressures and delivery of cost improvement programmes, put the board’s ability to deliver services in a sustainable manner under substantial threat.</p>	

### **Vision, Leadership and Governance**

Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

#### **Auditor judgement**

Effective and appropriate arrangements are in place



Governance arrangements throughout the year were found to be satisfactory and appropriate. We are satisfied that the Board continued to receive sufficient and appropriate information throughout the period to support effective and timely scrutiny and challenge.

Our assessment has been informed by a review of the corporate governance arrangements in place and the information provided to the Board and Committees.

The Board's new Population Health and Wellbeing Strategy was approved by the Board in March 2023. Appropriate arrangements are in place to oversee the delivery of the strategy and the Board has committed to update the key performance indicators to support the quantitative assessment and scrutiny of progress.

### **Use of Resources to Improve Outcomes**

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.

#### **Auditor judgement**

Risks exist to achievement of operational objectives



Whilst an established and appropriate performance management framework is in place at NHS Fife, the pandemic has exacerbated what were already tough core service delivery challenges.

Transformational service redesign and the effective use of resources will be essential to medium and long term performance improvement and sustainability. The Board will continue to face challenges over the next few years in achieving improved performance due to the time and resources required to tackle the pandemic related backlog challenges.

## Definition

We use the following gradings to provide an overall assessment of the arrangements in place as they relate to the wider scope areas. The text provides a guide to the key criteria we use in the assessment, although not all of the criteria may exist in every case.



# Introduction

The annual audit comprises the audit of the financial statements and other reports within the annual accounts, and the wider-scope audit responsibilities set out in the Code of Audit Practice.

We outlined the scope of our audit in our External Audit Plan, which we presented to the Audit & Risk Committee at the outset of our audit. We have not made any subsequent changes to the risks outlined in that plan.

## Responsibilities

The Board is responsible for preparing an annual report and accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on, the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to thank all management and staff for their co-operation and assistance during our audit.

## Auditor independence

International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent, and our objectivity has not been compromised in any way.

We set out in Appendix 1 our assessment and confirmation of independence.

## Adding value

All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. We add value by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to promote improved standards of governance, better management and decision making and more effective use of public money.



Any comments you may have on the service we provide would be greatly appreciated. Comments can be reported directly to any member of your audit team.

## Openness and transparency

This report will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).



# Financial statements audit

## Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	<p>We conduct our audit in accordance with applicable law and International Standards on Auditing.</p> <p>Our findings / conclusions to inform our opinion are set out in this section of our annual report.</p>	<p>The annual report and accounts were considered by the Audit and Risk Committee on 23 June 2023 and approved by the Board on 27 June 2023.</p> <p>Our independent auditor's report is unqualified in all regards.</p> <p>One adjustment was made to the unaudited financial statements arising from the audit. This related to the accounting treatment of the National Treatment Centre and is explained under the significant risk on PPE below.</p> <p>We received the unaudited annual accounts and supporting papers of a good standard in line with our audit timetable. Further information and revisions were provided promptly where required. Our thanks go to the Finance team for their assistance with our work.</p>

Opinion	Basis for opinion	Conclusions
<p>Going concern basis of accounting</p>	<p>When assessing whether the going concern basis of accounting is appropriate, the anticipated provision of services is more relevant to the assessment than the continued existence of a particular public body.</p> <p>We assess whether there are plans to discontinue or privatise the Board’s functions.</p> <p>Our wider scope audit work considers the financial sustainability of the Board.</p>	<p>We reviewed the financial forecasts for 2023/24. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the Board will continue to operate for at least 12 months from the signing date. Our audit opinion is unqualified in this respect.</p>
<p>Regularity</p>	<p>We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts.</p>	<p>We did not identify any instances of irregular activity.</p> <p>In our opinion, in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers.</p>

Opinion	Basis for opinion	Conclusions
<p>Matters prescribed by the Auditor General for Scotland:</p> <ul style="list-style-type: none"> <li>• The audited part of the Remuneration and Staff Report</li> <li>• Performance Report</li> <li>• Governance Statement</li> </ul>	<p>We plan and perform audit procedures to gain assurance that the audited part of the Remuneration and Staff Report, Performance Report and Governance Statement are prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.</p>	<p>The annual report contains no material misstatements or inconsistencies with the financial statements.</p> <p>We have concluded that:</p> <ul style="list-style-type: none"> <li>• the audited parts of the Remuneration and Staff Report have been properly prepared.</li> <li>• the information given in the performance report is consistent with the financial statements and has been prepared.</li> <li>• the information given in the Governance Statement is consistent with the financial statements and our understanding of the organisation gained through the audit.</li> </ul>

Opinion	Basis for opinion	Conclusions
Matters reported by exception	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> <li>adequate accounting records have not been kept; or</li> <li>the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or</li> <li>we have not received all the information and explanations we require for our audit; or</li> <li>there has been a failure to achieve a prescribed financial objective.</li> </ul>	We have no matters to report.

## An overview of the scope of our audit

The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit & Risk Committee in March 2023. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Board. This ensures that our audit focuses on the areas of highest risk (the significant risk areas). Planning is a continuous process, and our audit plan is subject to review during the course of the audit to take account of developments that arise.

In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through performing a review of the significant accounting systems, substantive procedures and detailed analytical procedures.

## Significant risk areas and key audit matters

Significant risks are defined by auditing standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. Audit procedures were designed to mitigate these risks.

As required by the Code of Audit Practice and the planning guidance issued by Audit Scotland, we consider the significant risks for the audit that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team (the 'Key Audit Matters'), as detailed in the tables below.

Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures.

Our opinion on the annual report and accounts is not modified with respect to any of the risks described below.

## Significant risks at the financial statement level

These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

### Management override of controls

#### Significant risk description

Management of any entity is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although the level of risk will vary from entity to entity, this risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk on all audits.

This was considered to be a significant risk and Key Audit Matter for the audit.

**Inherent risk of material misstatement:** Very High

## Management override of controls

### How the scope of our audit responded to the significant risk

#### Key judgement

There is the potential for management to use their judgement to influence the financial statements as well as the potential to override controls for specific transactions.

#### Audit procedures

- Documented our understanding of the journals posting process and evaluated the design effectiveness of management controls over journals.
- Analysed the journals listing and determined criteria for selecting high risk and / or unusual journals.
- Tested high risk and / or unusual journals posted during the year and after the unaudited annual accounts stage back to supporting documentation for appropriateness, corroboration and ensured approval has been undertaken in line with the Board's journals policy.
- Gained an understanding of the accounting estimates and critical judgements made by management. We have challenged key assumptions and considered the reasonableness and indicators of management bias which could result in material misstatement due to fraud.
- Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

### Key observations

We did not identify any indication of management override of controls from our audit work. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

## Significant risks at the assertion level for classes of transaction, account balances and disclosures

### Key risk area

### Fraud in revenue recognition

#### Significant risk description

Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed inherent risk on every audit unless it can be rebutted.

The presumption is that the Board could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position.

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end.

In respect of Scottish Government funding, however, we do not consider the revenue recognition risk to be significant due to a lack of incentive and opportunity to manipulate revenue of this nature. The risk of fraud in relation to revenue recognition is however present in all other income streams.

This was considered to be a significant risk and Key Audit Matter for the audit.

#### **Inherent risk of material misstatement:**

Revenue (occurrence / completeness): High

## Key risk area

### How the scope of our audit responded to the significant risk

#### Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end.

#### Audit procedures

- Evaluated the significant income streams and reviewed the controls in place over accounting for revenue.
- Considered key areas of income and obtained evidence that income is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.

### Key observations

At the planning stage of our audit we concluded that the revenue recognition risk was present in all revenue streams except for the Board's revenue resource allocation from Scottish Government. Our conclusion remained the same throughout the audit.

Based on audit work performed, we gained reasonable assurance on the completeness and occurrence of income and we are satisfied that income is fairly stated in the financial statements.



## Key risk area

### Fraud in non-pay expenditure

#### Significant risk description

As most public sector bodies are net expenditure bodies, the risk of fraud is also present in relation to expenditure. There is a risk that expenditure may be materially misstated in the financial statements.

This was considered to be a significant risk and Key Audit Matter for the audit.

#### Inherent risk of material misstatement:

- Non-pay expenditure (occurrence / completeness): High
- Accruals (existence / completeness): High

#### How the scope of our audit responded to the significant risk

#### Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of accruals and expenditure around the year end.

#### Audit procedures

- Evaluated the significant non-pay expenditure streams and the design of the key controls in place over accounting for expenditure. (Payroll is subject to separate tailored testing).
- Considered key areas of expenditure and obtained evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.
- Tested accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

#### Key observations

Based on audit work performed, we gained reasonable assurance on the completeness and occurrence of expenditure and we are satisfied that expenditure is fairly stated in the financial statements.

## Key risk area

### Commitments under PFI contracts

#### Significant risk description

The Board has two PFI contracts:

1. Community Hospital and Health Centre in St Andrews. The contract is for a period of 30 years commencing 31 July 2009.
2. Phase 3 of the Victoria Hospital site in Kirkcaldy. The contract is for a period of 30 years commencing 28 October 2011.

These initiatives are recognised as non-current assets on the Board's balance sheet with the net book value as at 31 March 2022 of £29million and £182million respectively. The liability to pay for these assets is in substance of finance lease obligation.

The Board pays a fixed monthly unitary payment to ensure the buildings are maintained to an agreed level of service specification. This unitary payment is subject to annual inflation.

Due to the complexity of accounting and the high value of the transactions, there is a risk that the Board's financial statements do not show the correct accounting entries and related commitments, and that the unitary payments in relation to these facilities are not correctly accounted for.

#### **Inherent risk of material misstatement:**

PPP asset (valuation): High

Lease liabilities (valuation): High

Expenditure (valuation): High

## Key risk area

### How the scope of our audit responded to the significant risk

#### Key judgements

Boards are required to ensure PFI and related assets are held at a carrying amount that does not differ materially from the current value at 31 March, alongside appropriate additional disclosures.

#### Audit procedures

- Documented our understanding of the Board's PFI contracts and how these are accounted for.
- Reviewed evidence to support the value of these contracts.
- Reviewed the Board's calculation of unitary payments.
- Reviewed the Board's compliance with the FReM and NHS Manual for Accounts regarding PFI contracts.

### Key observations

We reviewed the Board's PFI accounting and related commitment disclosures against the requirements of the FReM and the NHS Manual for Accounts. We also reviewed relevant aspects of the transactions against the NHS Scotland Capital Accounting Manual. No exceptions were identified in relation to PFI accounting.

## Key risk area

### Valuation of land and buildings (key accounting estimate)

#### Significant risk description

NHS Fife held land and buildings with a net book value of £464million at 31 March 2022, with external valuations on a five-year rolling basis.

There is a significant degree of subjectivity in the measurement and valuation of land and buildings. This subjectivity and the material nature of the Board's asset base represents an increased risk of misstatement in the financial statements.

#### Inherent risk of material misstatement:

Land & Buildings (valuation): Very High

#### How the scope of our audit responded to the significant risk

#### Key judgements

Boards are required to revalue properties with sufficient regularity to ensure that the carrying amount does not differ materially from the current value at 31 March.

#### Audit procedures

- Evaluated management processes and assumptions for the calculation of the estimates, the instructions issued to the valuation experts and the scope of their work.
- Evaluated the competence, capabilities and objectivity of management's valuation expert.
- Considered the basis on which the valuation was carried out and challenged the key assumptions applied.
- Tested the information used by the valuer to ensure it is complete and consistent with our understanding.
- Ensured revaluations made during the year have been input correctly to the fixed asset register and the accounting treatment within the financial statements is correct.

#### Key observations

We have gained assurance that the carrying value of the Board's estate in the financial statements is in line with the reports received from the external valuers (Valuation

## Key risk area

Office Agency). The valuer prepared its valuations in accordance with the RICS Valuation – Global Standards using the information that was available to them at the valuation date in deriving their estimates.

We evaluated the competence, objectivity and capability of management's expert in line with the requirements of ISA (UK) 500 and concluded that use of the expert was appropriate. We confirmed that the basis of valuation for assets is appropriate based on the usage and reviewed the reasonableness of valuation assumptions applied. Overall, the valuation movements were in line with supporting evidence.

We reviewed the keys estimates and judgements that management made in respect to the valuation of land and buildings for any indication of bias and assessed whether the judgements used by management are reasonable. We have concluded that estimates and judgements are Balanced.

Our audit work has not identified any issues in respect of the valuation of land and buildings as at 31 March 2023.

We did however note that the Board has not formalised its procedures to consider the impairment of PPE. We would encourage the Board to develop these in 2023/24.

### National Treatment Centre

Construction of the National Treatment Centre- Fife was completed in January 2023 and the facility officially opened in March 2023. In the unaudited financial statements, the completed asset was transferred out of assets under construction at cost and not at valuation. An adjustment was made to the financial statements to reflect the fair value of this asset as at the year-end (overall impairment of £9.106million). The adjustment is detailed at Appendix 2.

## IFRS 16 implementation (key accounting estimate)

### Significant risk description

The adoption of IFRS 16 on leases was delayed for NHS organisations and was implemented from 1 April 2022 therefore impacting on the 2022/23 financial statements for the first time.

There is a risk that lease terms, lease payments and the discount rate used to measure lease liabilities are inappropriately determined, therefore creating a risk that the financial statements are materially misstated. There is also a potential risk that lease liabilities are not completely recorded.

### Inherent risk of material misstatement:

Right of Use Asset (valuation): High

Right of Use Asset (completeness): High

Lease liabilities (valuation): High

### How the scope of our audit responded to the significant risk

#### Key judgements

The implementation of IFRS 16 presented judgement required as to the identification of leases and contracts.

#### Audit procedures

- Evaluated management processes for reviewing lease arrangements and contracts to determine leases falling within the remit of IFRS 16.
- Tested the completeness and accuracy of the data collected by management and used as part of the implementation of IFRS 16.
- Assessed the key judgements and decisions made about material contracts such as property leases or where lease terms are not prescriptive.
- Reviewed the appropriateness of the discount rate used in the calculation of the lease liability.
- Reperformed the calculation of the lease liability and right of use asset for a sample of leases.
- Reviewed the accounting policy and related disclosures for IFRS 16 in line with the requirements of the Financial Reporting Manual (FRoM), NHS

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Manual for Accounts and Scottish Government  
guidance.

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**Key observations**

Our audit work did not identify any issues in respect of the implementation of IFRS 16.

We have reviewed management's estimations and related disclosures and are satisfied that these comply with the requirements of the FReM and NHS Manual for Accounts.

We reviewed the key estimates and judgements that management made in respect of leases for any indication of bias and assessed whether the judgements used by management are reasonable. We have concluded that estimates and judgements are balanced.

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**Provisions- CNORIS (key accounting estimate)**

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**Significant risk description**

The Board's financial statements includes provision for legal obligations in respect of clinical and medical obligations and participation in CNORIS (Clinical Negligence and Other Risks Indemnity Scheme).

There is a significant degree of subjectivity in the measurement and valuation of these provisions. This subjectivity represents an increased risk of misstatement in the financial statements.

**Inherent risk of material misstatement:**

Provisions (valuation): High

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**How the scope of our audit responded to the significant risk**

**Key judgements**

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of provisions around the year end.

**Audit procedures**

- Reviewed management's estimation for the provision and related disclosures.
  - Considered compliance with the requirements of the FReM and NHS Manual for Accounts.
  - Considered the competence, capability and objectiveness of the management expert.
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## Key observations

We are satisfied that the amount recognised as a provision appropriately reflects the amounts notified by the Central Legal Office (CLO). We have assessed management's estimation technique for the provision and related disclosures and are satisfied that these comply with the requirements of the FReM and NHS Manual for Accounts.

We reviewed the key estimates and judgements that management made in respect to the provisions for any indication of bias and assessed whether the judgements used by management are reasonable. We have concluded that estimates and judgements are Balanced.

Audit Scotland undertake an annual review of the work carried out by the CLO to establish the extent to which the information they provide as a management expert can be used as audit evidence under ISA (UK) 500 and evaluate the appropriateness of the methodology adopted by Scottish Government to estimate the total national obligation. Audit Scotland has concluded that the CLO is objective, has sufficient expertise and the capability, time and resource to deliver reliable information.

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## Other identified risks

### Upgrade to eFinancials

The eFinancial system was upgraded at the start of 2023. There was significant disruption to some elements of the system following this update.

While these issues have now been resolved, we considered these in the context of our audit to determine whether they led to a material misstatement in the 2022/23 financial statements.

Based on the audit work performed, we did not identify any issues in respect of the eFinancial system upgrade that would have a material effect on the financial statements.

### Provision of payroll services

The Board's payroll services transferred to NSS in 2023, as part of a South East payroll service including NHS Fife, NHS Forth Valley and NHS Lothian and Scottish Ambulance Service. Staff transferred into NSS in February 2023. The controls have not changed from those operated by the Board's in-house team.

Our audit work has not identified any issues in respect of the Board's transfer of payroll services to NSS that would have a material effect on the financial statements.



## Accounting treatment for recovery of COVID-19 reserves

In 2021/22 NHS Fife received additional COVID-19 funding of £95million of which £59million was passed to Fife Integration Joint Board (the “IJB”). As at 31 March 2022, £35.993million was held as an IJB earmarked reserve.

The Scottish Government notified health boards and integration authorities of its intention to recover part of this funding, including £21million of the COVID-19 earmarked reserves in Fife IJB. To achieve this, NHS Fife provided reduced funding contributions to the IJB to allow utilisation of the reserves balance.

We have reviewed the accounting treatment and disclosures in the financial statements with no exceptions noted.

## Materiality

Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor’s report. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile the Board and the needs of users. We review our assessment of materiality throughout the audit.

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to the Board and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

Our initial assessment of materiality for the group and the Board’s financial statements was £14million. On receipt of the unaudited financial statements, we reassessed materiality and kept it at the same level as our initial assessment. We consider that our assessment has remained appropriate throughout our audit.

	<b>Group £million</b>	<b>Board £million</b>
<b>Overall materiality for the financial statements</b>	14	14
<b>Performance materiality</b>	10.5	10.5
<b>Trivial threshold</b>	0.250	0.250

### **Materiality**

Our assessment is made with reference to the Board's gross expenditure. We consider this to be the principal consideration for the users of the annual accounts when assessing financial performance.

Our assessment of materiality equates to approximately 1% of gross expenditure as disclosed in the 2022/23 unaudited annual report and accounts.

We set materiality for both the Group and the Board at the same level given our assessment and approach to the group audit. We have concluded that the IJB and Fife Health Charity are not significant components to the overall group.

In performing our audit, we apply a lower level of materiality to the audit of the Remuneration and Staff Report. Our materiality is set at £5,000.

### **Performance materiality**

Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.

Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.

### **Trivial misstatements**

Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

## **Group audit**

The Board prepares its annual report and accounts on a group basis. The group consists of NHS Fife (the "Board"), Fife Integration Joint Board (IJB) and Fife Health Board Endowment Fund (Fife Health Charity).

As group auditors under ISA (UK) 600 we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and regarding the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the

applicable financial reporting framework. The following table sets out the components within the group.

Component	Significant	Level of response required
NHS Fife	Yes	Comprehensive
Fife Integration Joint Board (IJB)	No	Analytical
Fife Health Board Endowment Fund (Fife Health Charity)	No	Analytical

**Comprehensive** – the component is of such significance to the group as a whole that an audit of the component’s financial statements is required for group reporting purposes.

**Analytical** - the component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level.

The Endowment Fund is fully consolidated. The integration joint boards are deemed joint ventures with the respective local authority and accounted for under the equity method. We do not consider the consolidated entities to be of individual financial significance to the group or, due to their specific nature, circumstances and basis of accounting, likely to include significant risks of material misstatement of the group financial statements.

As part of our audit, we reviewed the consolidation entries made within the group accounts for the Endowment Fund and confirmed those entries back to the financial statements.

Thomson Cooper conducted the audit of the Endowment Fund. We have nothing to report in respect of the following matters:

- No significant deficiencies in the system of internal control or instances of fraud were identified by the Endowment Fund auditor; and
- There were no limitations on the group audit.

## Audit differences

One audit adjustment has been identified in respect of the accounting treatment of the National Treatment Centre. The overall impact on the financial statements was an increase in net expenditure and a reduction in net assets of £9.1million and is explained under the significant risk on PPE on page 21 and in Appendix 2.

No unadjusted differences were identified.

We also identified disclosure and presentational adjustments during our audit which have been reflected in the final set of financial statements and are disclosed in Appendix 2.

## Internal controls

As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where we identify any control weaknesses as part of our control testing, we report these in this report. These matters are limited to those which we have concluded are of sufficient importance to merit being reported. We did not identify any significant control weaknesses during our audit.

## Service auditor reports

The Board utilise a number of shared IT systems, IT applications and processes with other Scottish Health Boards. Assurance reports are prepared by service auditors in the health sector under ISAE (UK) 3402 covering the national systems/arrangements.

Shared service	Service assurance
<p><b>National IT contract</b></p> <p>This contract covers the services provided by ATOS IT Services UK Limited e.g. controls over the principal IT service delivery supporting eFinancials.</p>	<p>NHS National Services Scotland (NSS) procures a service auditor report from KPMG. In May 2023 KPMG reported an unqualified audit opinion. We have considered the findings of the report and are satisfied that the findings do not have a material impact on our audit approach or conclusions.</p>
<p><b>National Single Instance (NSI) eFinancials</b></p> <p>NHS Ayrshire &amp; Arran provide the eFinancials service with the IT service delivery being provided via the 'National IT contract' including the Real Asset Management system on behalf of all Scottish Health Boards</p>	<p>NHS Ayrshire and Arran procure a service auditor report from BDO. In May 2023 the service auditor report highlighted no critical or significant risk findings and reported an unqualified opinion.</p>

Shared service	Service assurance
<p><b>National Practitioner and Counter Fraud Services</b></p> <p>This contract supports accurate payments and patient registration for NHS services to GPs, dentists, pharmacists, and optometrists.</p>	<p>NHS National Services Scotland (NSS) procures a service auditor report from KPMG. In May 2023 KPMG reported an unqualified audit opinion. We considered the findings of the report and are satisfied that the findings do not have a material impact on our audit approach or conclusions.</p>

## Follow up of prior year recommendations

We followed up on progress in implementing actions raised in the prior year as they relate to the audit of the financial statements. Full details of our findings are included in Appendix 3.

## Other communications

### Accounting policies

The accounting policies used in preparing the financial statements are unchanged from the previous year with exception of the implementation of IFRS 16.

Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies adopted by the Board.

The accounting policies, which are disclosed in the annual accounts, are in line with the NHS Accounts Manual and are considered appropriate.

There are no significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.

### Key judgements and estimates

As part of the planning stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements.

Consideration was given to asset valuations, impairment, depreciation and amortisation rates, provisions for legal obligations and doubtful debts, IFRS 16 implementation and accruals. Other than asset valuations, provisions for legal obligations in respect of clinical and medical obligations and IFRS 16 implementation we have not determined the accounting estimates to be significant.

We reviewed the key estimates and judgements that management made in respect to the identified key accounting estimates for indication of bias and assessed whether the judgements used by management are reasonable. Overall we concluded that for those key accounting estimates they were balanced and appropriate.

In addition, we are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements which are deemed to not be key to the overall financial statements.

### **Fraud and suspected fraud**

We have previously discussed the risk of fraud with management and the Audit & Risk Committee. We have not been made aware of any incidents in the period nor have any incidents come to our attention as a result of our audit testing.

Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

### **Non-compliance with laws and regulations**

As part of our standard audit testing, we have reviewed the laws and regulations impacting the Board. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations.

### **Written representations**

We have presented the final letter of representation to the Board to sign at the same time as the financial statements are approved.


### **Related parties**

We are not aware of any related party transactions which have not been disclosed.

### **Confirmations from third parties**

All requested third party confirmations have been received.

# Wider Scope

<p><b>Financial Management</b></p> <p>Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p><b>Auditor judgement</b></p> <p>Risks exist to achievement of operational objectives</p>  <p>NHS Fife achieved its financial targets in 2022/23, although financial brokerage of £9.728m was required from the Scottish Government.</p> <p>We identified no significant weaknesses in accounting and internal control systems during our audit.</p>
<p><b>Financial Sustainability</b></p> <p>Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services and the way in which they should be delivered.</p>	<p><b>Auditor judgement</b></p> <p>Significant unmitigated risks affect achievement of corporate objectives</p>  <p>NHS Fife continues to face major risks to achieving financial balance while responding to the unprecedented challenges of recovering from the COVID-19 pandemic. Risk and uncertainty in relation to funding levels, workforce-related cost pressures and delivery of cost improvement programmes, put the board’s ability to deliver services in a sustainable manner under substantial threat.</p>

### Vision, Leadership and Governance

Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

#### Auditor judgement



Governance arrangements throughout the year were found to be satisfactory and appropriate. We are satisfied that the Board continued to receive sufficient and appropriate information throughout the period to support effective and timely scrutiny and challenge.

Our assessment has been informed by a review of the corporate governance arrangements in place and the information provided to the Board and Committees.

The Board's new Population Health and Wellbeing Strategy was approved by the Board in March 2023. Appropriate arrangements are in place to oversee the delivery of the strategy and the Board has committed to update the key performance indicators to align to the strategy content to support the quantitative assessment and scrutiny of progress.

### Use of Resources to Improve Outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.

#### Auditor judgement



Whilst an established and appropriate performance management framework is in place at NHS Fife, the pandemic has exacerbated what were already tough core service delivery challenges.

Transformational service redesign and the effective use of resources will be essential to medium and long term performance improvement and sustainability. The Board will continue to face challenges over the next few years in achieving improved performance due to the time and resources required to tackle the pandemic related backlog challenges.



## Financial management

All Boards typically have to work within the resource limits and cash requirements set by the Scottish Government.

All key financial targets were met in 2022/23 as shown in the table below, although financial brokerage of £9.7m was required from Scottish Government.

### Performance against resource limits 2022/23

Financial target	Limit £000	Actual £000	Variance £000
Core revenue resource limit (RRL)	883,469	883,469	0
Non-core revenue resource limit	34,395	34,395	0
Core capital resource limit (CRL)	32,289	32,284	5
Non-core capital resource limit	2,302	2,302	0
Cash requirement	1,011,623	1,011,623	0

### Financial Outturn

NHS Fife submitted a 3 year financial plan to Scottish Government which highlighted a recurring financial gap for 2022/23 of £24.1m. Cost improvement plans totalling £11.7m and a capital to revenue transfer of £2m left a residual financial gap of £10.4m, which was therefore set as the planned overspend for 2022/23, for which brokerage from Scottish Government was expected.

During the year, NHS Fife under-achieved on the cost improvement programme by £1.9m. Cost savings achieved in other areas compensated for this shortfall but the board still required financial brokerage of £9.7m to stay within its revenue resource limits. This brokerage is repayable to Scottish Government.

Delivery of a balanced financial position is recognised as a high risk, and above the board's risk appetite, in the corporate risk register. The key cost pressures affecting the board in 2022/23 were driven by substantial reliance on temporary staff and the impact of global inflation, particularly in relation to energy costs and the unitary charges on the PFI hospitals, which are inflation linked. Both of these remain major cost pressures going into 2023/24, as described in the section on financial sustainability below. The financial position was monitored throughout the year by the

Finance, Performance and Resources Committee and the board via the Integrated Performance and Quality Report.

## Cost improvement plans

NHS Fife delivered £9.8m of the £11.7m cost improvement programme. Of the cost improvements delivered in 2022/23, only around a third (circa £3m) represent recurring savings. This means that the remaining savings will need to be achieved again in 2023/24.

The table below shows performance against the cost improvement programme. The main areas that were not achieved relate to acute services and reduction in non-core staffing.

### Cost improvement plans 2022/23

Plan	Target £000	Actual £000	Variance £000
Instruments and sundries	1,000	379	(621)
Investment in theatres procurement/ cost reduction	500	138	(362)
Repatriation of radical prostatectomy	205	0	(205)
Travel and printing	60	72	12
Managed service contract for labs	425	425	0
Skill mix review	50	49	(1)
Pirfenidone / Nintedanib	40	40	0
Patent Expiry / Homecare	160	0	(160)
Community paediatric drugs	20	20	0
Reduction in non-core staffing	2,000	1,019	(981)
Vacancy release	210	209	(1)

Plan	Target £000	Actual £000	Variance £000
Medicines efficiency, PAS rebates, Contract changes	700	1,166	466
Major contract review	250	250	0
Property maintenance minor works team	100	0	(100)
Energy savings - NDEE project	150	160	10
Rates review	500	503	3
Roster review	250	338	88
Terminate lease for Evans Business Park	80	80	0
Grip and control	402	402	0
Vacancy factor	1,183	1,149	(34)
Financial grip & control	3,415	3,413	(2)
<b>Total</b>	<b>11,700</b>	<b>9,812</b>	<b>£1,888</b>

**Source: May 2023 Integrated Performance and Quality Report**

## Financial impact of the COVID-19 pandemic

The initial 2022/23 financial plan assumed funding from the Scottish Government to cover COVID-19 expenditure in full. Costs of £16m directly attributed to COVID-19 were identified. However in early 2022/23, it was confirmed that only £7.5million of funding would be received to cover these expected COVID-19 costs.

## Systems of internal control

We have evaluated the Board's key financial systems and internal financial controls to ensure internal controls are operating effectively to safeguard public assets.

We did not identify any significant weaknesses in NHS Fife's accounting and internal control systems during our audit.

## Prevention and detection of fraud and irregularity

We found NHS Fife's arrangements for the prevention and detection of fraud and other irregularities to be adequate.

Regular updates on fraud related matters (including Counter Fraud Services updates), and the National Fraud Initiative (NFI) are presented to the Audit and Risk Committee.

### National fraud initiative

The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error.

The most recent NFI exercise commenced in 2022. NHS Fife uploaded the data in line with the requirements of the NFI in November 2022 ahead of the new data sets being released in January 2023. The board is working through the matches and expects to have this completed by Autumn. There are no significant findings to note so far.

Overall, NHS Fife's arrangements with respect to NFI are satisfactory but we will follow up completion of the work as part of our 2023/24 audit.

## Financial sustainability

### Significant audit risk

Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities:

#### Extract from External Audit Plan - Financial sustainability

The Board submitted its draft medium term financial plan to the Scottish Government, in line with set deadlines, in February 2023. The final version of the plan is due to be considered by the Finance, Performance and Resources Committee and Board in March 2023.

The draft plan shows a cumulative financial gap, before mitigations, of £73.195million over the period 2023/24 to 2027/28. A breakeven position for 2023/24 and 2024/25 and a surplus from 2025/26 onwards is forecast; however, this is subject to the delivery in full of challenging cost improvement plans and receipt of brokerage in 2023/24 and 2024/25.

The Board faces extreme challenges in achieving savings targets, reducing surge activity and reducing reliance on bank and agency staff while addressing areas of under-performance against targets and recovering from the COVID-19 pandemic. The emerging and uncertain impact on the Board's finances and ability to deliver services in a sustainable manner remains a significant challenge and risk.

Our detailed findings on the Board's financial framework for achieving long term financial sustainability are set out below.

### Underlying financial deficit

NHS Scotland is predicting that NHS boards will require substantial financial brokerage over the next three years. NHS Fife is expecting to require 3 year brokerage of £35m and delivery of recurring financial balance over the medium term remains a high risk within NHS Fife's corporate risk register.

At its meeting on 28 March 2023, the NHS Fife board approved its financial plan for 2023/24 following several months of detailed and robust review of the board financial position.

The financial plan shows a cost improvement requirement for 2023/24 of £25.9m (circa 3% of health-retained baseline budget). This requirement reflects locally and nationally agreed cost pressures. Cost improvement plans of £15m have been agreed, leaving a financial gap of £10.9m.

NHS Fife has highlighted the remaining financial gap of £10.9m to Scottish Government through the medium-term financial planning process along with the requirement for financial support in 2023/24 in order to break even. Scottish Government expects NHS boards to deliver a balanced financial outturn and any financial assistance received by Boards to support a breakeven position will be provided on a repayable brokerage basis and should be minimised as far as possible.

## Financial Improvement and Sustainability Programme

NHS Fife have a £15m cost improvement programme for 2023/24 and have plans in place to deliver the 3% recurring savings target required by the Scottish Government's Sustainability and Value programme.

To help achieve this, the board has established an executive led Financial Improvement and Sustainability (FIS) Programme which contains a range of activities to deliver increased capacity and productivity and to release cash efficiencies and cost reduction. During 2023/24 the key areas for cost reduction to deliver the £15m target have been identified as bank and agency spend (£10m), and surge capacity (£5m). There are also plans to reduce corporate overheads, a significant medicines optimisation plan and a range of initiatives to reduce property and asset management costs.

### Bank and agency staffing

Work on delivering a more sustainable and cost-effective approach to the use of bank and agency staff is a high priority area for NHS Fife and this is the largest element of the cost improvement programme for 2023/24.

An existing commitment made by the executive team to create a consolidated single Staff Bank for the management of all supplementary staffing needs has now been expanded under a new Bank & Agency Programme led by the Director of Workforce which will aim to deliver a revised model to contribute to financial and workforce sustainability to meet current and future service needs.

The Programme will aim to deliver the aims set out by the national Supplementary Staffing Task & Finish Group including the adoption of the National Principles for the Management of Agency Workforce Supply to NHS Scotland Health Boards. As the model is developed it will align with broader work on staff recruitment and retention and will reflect and work compatibly with the introduction of the new national e-Rostering solution and implementation of the Health and Care (Staffing) (Scotland) Act 2019.

### NRAC parity

The Scottish Government uses a formula developed by the NHS Scotland Resource Allocation Committee (NRAC) to assess how much funding each board should be allocated. The NRAC formula considers the demographics of each board area

including population size, deprivation levels and unavoidable geographical variations in the cost of providing services.

In common with other Scottish health boards, NHS Fife has never received its full share of NHS funding suggested by the NRAC formula. NHS Fife is currently 0.8% below this suggested level and estimates that the cumulative effect of this over the last 10 years is approximately £100m.

On 14 June 2023, Scottish Government wrote to NHS board chief executives with an announcement of further funding to support the 2023/24 financial position. This included additional recurring funding to bring NHS Fife to 0.6% below NRAC parity. Scottish Government also confirmed in this letter to continue to review the NRAC position and make incremental reductions in parity distance in the coming years. The letter also announced a share of a further £100m of new medicines funding, which will be distributed to Scottish health boards on an NRAC basis.

This additional NRAC funding should mitigate the £10.9m financial gap identified for 2023/24, and therefore reduce the level of brokerage support required in the coming years, but does not reduce the cost improvement requirement of £15m.

## Medium term financial plan

NHS Fife has submitted its medium-term financial plan to Scottish Government which sets out the key risks to delivery of financial balance in-year and over the medium-term. Key planning risks and assumptions set out in the plan include:

- Ongoing distance from NRAC parity and the cumulative impact of this on the financial position
- Unsustainable levels of reliance on bank and agency staffing to support significant workforce availability challenges
- Requirement to maintain all surge capacity throughout the full year
- Significant cost pressure within SLAs with other NHS and Independent Sector Providers
- Increasing cost pressure within SLAs for Mental Health and Learning Disability Services
- Inflationary pressures impacted by record global energy costs, across a number of areas, particularly PFI contracts which are directly linked to RPI
- Reduced levels of funding for planned care services
- Significant increasing costs across acute prescribing budgets.

NHS Fife continues to operate outwith the agreed Board risk appetite in relation to delivering value and sustainability. The board believes that its financial plan does however set out a realistic and credible plan to respond effectively to this over the

medium-term. During 2023/24, the board will continue to utilise the infrastructure put in place in the previous year to help support delivery and identification of financial and productive opportunities.

## Financial 'Grip and Control'

NHS Fife has developed an approach to financial grip and control which helped deliver a large element of required savings in 2022/23 and the board plans to continue this into 2023/24.

Given the significantly challenging financial environment, it is essential that there continues to be a strong focus on identifying cost improvement and productive opportunities. The strategic approach to sustainability and the use of a self-assessment checklist approach across the organisation in support of effective financial 'grip and control' is important in maintaining and improving operational performance and managing pressures at a local level. The checklist helps identify and inform budget holder responsibilities and is used to assist the budget setting process. There is a requirement for all budget holders to complete and sign this checklist alongside budget sign off. This requires budget holders to develop an understanding of any areas for improvement within existing systems and develop an action plan to address them.

The Finance Business Partners and Management Accountants support completion of this process, which has been made mandatory for all managers with budgetary responsibility. The deadline for completion and submission of the self-assessment tool is 30 June 2023.



## Vision, leadership and governance

### Leadership

The following changes in board composition occurred during the year:

- Three non-executive members (Martin Black, Christina Cooper and Catriona Laing) left the board during 2022/23 and were replaced by Colin Grieve, Anne Haston and John Kemp;
- Cllr David Graham has been reappointed as the Fife Council representative non-executive director from June 2022;
- The Chair (Tricia Marwick) retired in March 2023. The Vice Chair, Alistair Morris, was appointed as Acting Chair from April 2023. Recruitment of a permanent Chair remains ongoing.

All new Board members were provided with an induction programme prior to their first Board meeting. The sessions included meetings with Executives and Board Members and covered areas including an introduction to the Board and its Committees, an overview of financial governance, stewardship and risk management, an overview of the services devolved to the Fife Health and Social Care Partnership and an overview of staff governance.

We reviewed the induction process and concluded that it provides those charged with governance with the information and platform to do so effectively.

In addition, the Board held bi-monthly development sessions during 2022/23. From review of the Board development sessions, we have concluded that they provided board members with appropriate and relevant information and a suitable platform to continue to discharge their leadership responsibilities effectively.

### Governance arrangements

The Board is responsible for ensuring the overall governance of NHS Fife. In driving forwards the strategic direction of NHS Fife and ensuring the governance framework is operating as intended, the Board continues to be supported by six committees:

- Audit and Risk Committee;
- Finance, Performance and Resources Committee;
- Staff Governance Committee;
- Public Health and Wellbeing Committee;
- Remuneration Committee; and
- Clinical Governance Committee.

All Committees are required to provide an Annual Statement of Assurance to the Audit and Risk Committee and Board describing their membership, attendance, frequency of meetings, business addressed, outcomes and extent of assurances provided. These statements seek to demonstrate how each Committee has fully fulfilled their roles and remit during the reporting year, which provides assurance over the effectiveness of the committees to the Board. The Annual Statements of Assurance are planned to be presented to the June Audit and Risk Committee each year.

### **Board and Committee meetings**

Committee meetings have continued to be held virtually rather than in person, to date, to comply with requirements for non-essential travel and physical distancing, and the preferred mechanism is now through MS Teams, in line with other NHS Boards. Board meetings adopted a hybrid approach from March 2023 and development sessions returned to in-person meetings from April 2022.

Throughout 2022/23, we have seen evidence that the Board has been able to maintain all key aspects of board governance, including its regular schedule of board and committee meetings.

Through our review of committee papers we are satisfied that there continued to be effective scrutiny, challenge and informed decision making through the financial period.

### **Blueprint for Good Governance**

The Board's self-assessment, carried out in 2019, to assess the efficacy of its governance arrangements in delivering on the Blueprint's objectives, informed the Board's action plan for the implementation of the Blueprint for Good Governance. The most recent update on the Board Action Plan was presented to the Board in January 2022 which noted the completion of the initial Blueprint action plan.

The refreshed Blueprint for Good Governance (second edition) was published by the Scottish Government in December 2022. There were a number of new sections in the revised edition including detail on Assurance Frameworks, Risk Management System and Audit arrangements. Work is ongoing within the Board to use the refreshed Blueprint to map its current governance arrangements against the standards in the national Blueprint to demonstrate best practice and continuous improvement.

The Blueprint sets an expectation that each Board's governance arrangements will be subject to an annual self-assessment exercise and an external evaluation once every three years. The next Blueprint self-assessment against areas outlined in the document is expected to be released in early summer 2023 where the results will enable individual Boards to benchmark their current arrangements against the revised Blueprint and develop an action plan in response.

In April 2023 the Board members attended the Scottish Government national event to raise awareness of the updated guidance on what constitutes good corporate

governance practice and provide greater detail on specific delivery mechanisms that support governance.

## Internal audit

An effective internal audit service is an important element of a Board's overall governance arrangements. NHS Fife's internal audit service is provided by FTF Internal Audit Service. During our audit we considered the work of internal audit wherever possible to inform our risk assessment and our work on the governance statement.

The annual internal audit report was presented to the Audit and Risk Committee in June 2023. This report confirmed that the annual programme of internal audit work had been completed and that "The board has adequate and effective internal controls in place". In addition, internal audit have not advised management of any additional disclosure requirements for the governance statement or any inconsistencies between the governance statement and information they are aware of from their work.

## Population Health and Wellbeing Strategy

The Board's new Population Health and Wellbeing Strategy was approved by the Board in March 2023.

The strategy sets out the proposed strategic ambitions for NHS Fife over the next five years and recognises the challenges currently facing the health sector including the level of partnership working which is required to improve population and health wellbeing.

The strategy takes cognisance of the Board's overarching vision, values and principles and is structured under four strategic priorities:

- Improve health and wellbeing - we work to close the inequality gap ensuring that all people of Fife can flourish from cradle to grave.
- Improve the quality of health and care - we provide the safest and best possible health and care services, from cradle to grave, for the people of Fife.
- Improve staff experience and wellbeing - we value and look after our staff.
- Deliver value and sustainability - we use our resources wisely to ensure our services are sustainable and meet our population's needs.

The strategy does not set out a series of detailed actions but instead presents a declaration of the Board's vision and intent to prioritise health inequalities and support improvement in the health and wellbeing of citizens. The implementation of the strategy will be taken forward through annual delivery plans and the Board's 2023/24 annual delivery plan was submitted to the Scottish Government in June 2023.

The Board committed to establishing a range of strategic programmes to support the delivery of this strategy which will be overseen by the Portfolio Board. Priority programmes currently underway include:

- Integrated Unscheduled Care;
- Integrated Planned Care;
- Cancer Services;
- High-Risk Pain Medicines;
- Digital and information and;
- Financial Improvement and Sustainability.

The Public Health and Wellbeing Committee has been appointed to lead the governance oversight of the development, implementation and delivery of the new Population Health & Wellbeing Strategy. The Committee Annual Workplan 2023/24, approved in March 2023, includes updates on the Population Health and Wellbeing Strategy to be presented at every second Committee meeting from July 2023.

As part of the approved 2023/24 workplan, the Board has committed to review the Population Health and Wellbeing Strategy in September 2023 to ensure it remains fit for purpose and appropriate progress has been made in delivery.

## Risk Management

The Board refreshed its Risk Management Framework during 2022/23 in order to further embed a risk management culture into the organisation.

In September 2022, the Board agreed that the Board Assurance Framework (BAF) would be replaced by the Corporate Risk Register. During 2022/23, work was undertaken with senior leadership teams, governance committees and the board to make a smooth transition from the BAF to a Corporate Risk Register.

A proposed Corporate Risk Register was developed and approved by the Board in September 2022. The format of the Risk Register refocused the presentation of the corporate risks by mapping them to the Board's four strategic priorities and aligning each risk to a governance committee for assurance.

Since November 2022, the Corporate Risks have been reported bi-monthly to the governance committees and subsequently to the Audit & Risk Committee and the Board. From attendance at Audit and Risk Committee, we are satisfied that the risk management framework has continued to operate effectively.

## Risk and Opportunities Group

During 2022/23, the Board established a Risks and Opportunities Group (ROG) which first met in September 2022. The role of ROG includes monitoring and reviewing the risks, considering links to the Board's risk appetite, the strategic

priorities, the operational risk profile, and providing critique, recommendations and assurance to the Executive Directors Group, committees and other stakeholders. The Director of Finance & Strategy, as Executive Lead for Risk Management, is responsible for reporting on the work of ROG to the Audit & Risk Committee.

The work of ROG in 2022/23 has included:

- Reviewing the Corporate Risk Register, with a focus on realistic risk scoring and risk appetite;
- Considering governance committees' feedback on corporate risk assurance reports, including deep-dive reviews;
- Identifying potential improvements to the design and content of assurance reports, particularly around provision of clear evidence on the impact of actions on the risk rating when complete, and assurance that actions are clearly described, to instil confidence that the mitigation will support the reduction (or at least the maintenance) of the risk profile and;
- Considering risk data in Datix and how this can be used to enable teams at strategic and operational levels to manage risk effectively, including the implementation of meaningful Key Performance Indicators, and provide insights into the types or areas of emerging risk.

The ROG has developed a workplan for 2023/24 which focuses on reviewing the new Population Health & Wellbeing Strategy, the Strategic Planning & Resource Allocation process and the corporate objectives in order to inform recommendations on changes or additions to the corporate risks and the broader organisational risk profile.

## Use of resources to improve outcomes

### Performance Management Arrangements

#### Performance management framework

The Board has developed a performance management framework which comprises updates on key performance indicators (KPIs) at each meeting of the board and committees through the Integrated Performance and Quality Report (IPQR). This report provides assurance on the Board's performance against national standards and local KPIs.

A review of the IPQR was carried out at the end of 2021/22 and implemented during the early months of 2022/23. Additional metrics have been incorporated with visualisations amended to incorporate Statistical Process Control charts as well as reviewing areas of focus for each metric. In addition, in September 2022, a further revision was made to performance reporting through the production of different extracts of the IPQR for each standing committee to enable more efficient scrutiny of their relevant performance areas.

The Board has committed to update the key performance indicators within the IPQRs to align to the content of the Population Health and Wellbeing Strategy. This workstream is expected to be undertaken once the Annual Delivery Plan 2023/24 is approved by the Scottish Government.

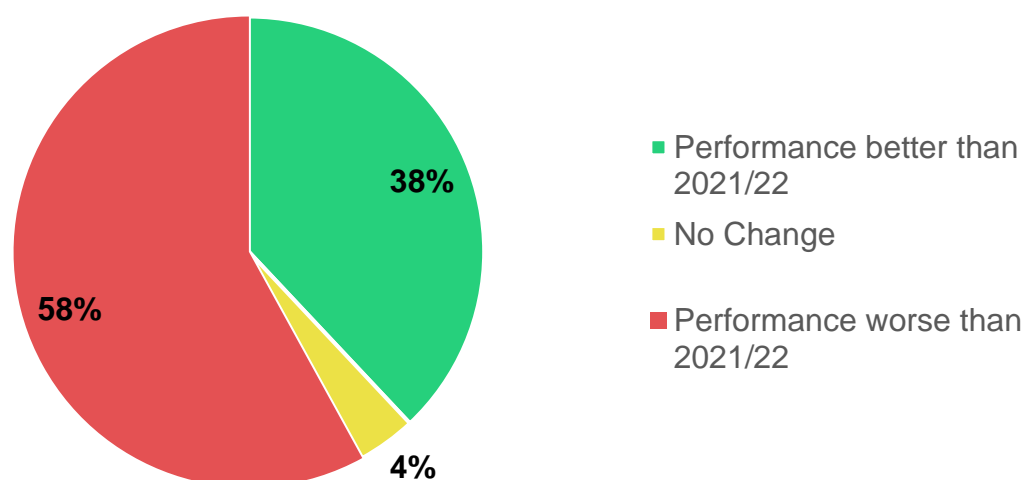
Through review of board and committee papers, we concluded that performance is given the appropriate level of scrutiny and challenge.

#### Performance in 2022/23

The 2022/23 IPQRs present performance against 34 KPIs. The May 2023 IPQR, which contains March 2023 performance data, was presented to the Board in private session in May 2023.

Our analysis in the graph below shows a mixed picture of performance compared to the prior year. Performance for 38% of KPIs has improved, 4% of KPIs were consistent with the prior year and 58% worsened since 2021/22.

## Comparison of 2022/23 performance with 2021/22



**Source: Fife Integrated Performance & Quality Report produced in April 2023 - May 2023**

As detailed in the April 2023 IPQR, 6 of the 28 KPIs which had 2022/23 targets set, were on schedule to meet target, 2 were behind (but within 5% of) the target and 20 KPIs were more than 5% behind target.

The key performance indicators which were significantly behind the 2022/23 target are in relation to waiting and treatment times where performance against the 2022/23 targets to date are as follows:

- 4-Hour Emergency Access: actual 69.7% (2022/23 target of 95%)
- Patient TTG % <= 12 weeks: actual 44.9% (2022/23 target of 100%)
- New Outpatients % <= 12 weeks: actual 46.6% (2022/23 target of 95%)
- Diagnostics % <= 6 weeks: actual 59.9% (2022/23 target of 100%)
- Cancer 62-Day RTT: actual 67.5% (2022/23 target of 95%).

As illustrated through the Board's performance reporting, the COVID-19 pandemic continues to have a significant impact on the Board's activity, waiting times for services and the number of referrals. In addition, there continues to be significant risks nationally and locally around the delivery of the backlog of referrals which has developed during the pandemic, with recovery plans being discussed within the Board and with the Scottish Government. The Board has acknowledged that recovery against the backlog will require additional investment to deliver in full.

Transformational service redesign and the effective use of resources will be essential to medium and longer term performance improvement and sustainability.

The Board will continue to face challenges over the next few years in achieving improved performance due to the time and resources required to tackle the pandemic related backlog challenges.

### Best Value

All standing committees completed a Best Value Framework assessment alongside their Annual Statement of Assurance. The assessments set out the Best Value characteristics and list measures, expected outcomes and evidence against each characteristic. The results of the 2022/23 assessments are to be presented to the Audit and Risk Committee in June 2023.

The assessments identified development of the Population Health and Wellbeing Strategy and continued development of the Strategic Planning and Resource Allocation (SPRA) as good examples of NHS Fife's commitment to delivering Best Value.

### Climate Change

The Board has set a corporate emission reduction target of being a net zero service by 2040. This target is in line with the NHS Scotland climate emergency and sustainability strategy: 2022-2026.

The Board has recognised that the target for Net Zero relies on transformation of its existing estate. During 2022/23, a £1.8million investment, funded through the public decentralisation energy scheme, was completed attracting an annual saving of approximately £250,000 and significantly reducing electricity demand. In addition, PPP sites are utilising ground source heat pumps and Biomass boilers to reduce overall reliance on fossil fuels and a survey is underway as a pilot with Scottish Futures Trust to draw up plans to decarbonise St Andrews Community Hospital.

Net zero route maps have been developed for 12 focused sites. These will be used to develop schemes for improvement and to identify capital funding requirements to request from the Scottish Government.

In addition, a greenspace strategy is currently in development which will enable progression across many areas of the climate strategy including:

- Use of renewable energy
- Improvement in active travel
- Promote management of public asset in ways which improve public health, reduce health inequality and help address biodiversity loss.

During 2022/23, the Board has monitored progress towards meeting its emission targets through reporting to the Addressing Climate Change Board in Fife, NHS Scotland Climate Change Emergency and Sustainability Board, East Region Climate Emergency and Sustainability Group, NESG National Group, the National Climate Change Board and through annual performance reporting.





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# Appendix 1: Responsibilities of the Board and the Auditor

## Board responsibilities

The Board has primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include the following:

Area	Board responsibilities
<b>Corporate governance</b>	<p>The Board is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p>
<b>Financial statements and related reports</b>	<p>The Board has responsibility for:</p> <ul style="list-style-type: none"> <li>• preparing financial statements which give a true and fair view of its financial position and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;</li> <li>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support its financial statements and related reports disclosures;</li> <li>• ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; and</li> <li>• preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report in accordance with prescribed requirements. Management commentaries should be fair, balanced and understandable.</li> </ul> <p>Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial</p>

Area	Board responsibilities
	<p>reporting framework. The relevant information should be communicated clearly and concisely.</p> <p>The Board is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. The Board is also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
<p><b>Standards of conduct for prevention and detection of fraud and error</b></p>	<p>The Board is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>
<p><b>Financial position</b></p>	<p>The Board is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• Such financial monitoring and reporting arrangements as may be specified;</li> <li>• Compliance with statutory financial requirements and achievement of financial targets;</li> <li>• Balances and reserves, including strategies about levels and their future use;</li> <li>• Plans to deal with uncertainty in the medium and long term; and</li> <li>• The impact of planned future policies and foreseeable developments on the financial position.</li> </ul>
<p><b>Best Value</b></p>	<p>The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure Best Value. Accountable Officers are required to ensure accountability and transparency</p>

Area	Board responsibilities
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	through effective performance reporting for both internal and external stakeholders.
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## Auditor responsibilities

### Code of Audit Practice

The Code of Audit Practice (the Code) describes the high-level, principles-based purpose and scope of public audit in Scotland. The [2021 Code](#) came into effect from 2022/23.

The Code of Audit Practice outlines the responsibilities of external auditors appointed by the Auditor General and it is a condition of our appointment that we follow it.

### Our responsibilities

Auditor responsibilities are derived from the Code, statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, and guidance from Audit Scotland.

We are responsible for the audit of the accounts and the wider-scope responsibilities explained below. We act independently in carrying out our role and in exercising professional judgement. We report to the Board and others, including Audit Scotland, on the results of our audit work.

Weaknesses or risks, including fraud and other irregularities, identified by auditors, are only those which come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

## Wider scope audit work

Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector.

The wider scope audit specified by the Code broadens the audit of the accounts to include additional aspects or risks in areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

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## Financial management



Financial management means having sound budgetary processes. Audited bodies require to understand the financial environment and whether their internal controls are operating effectively.

### Auditor considerations

Auditors consider whether the body has effective arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities.

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## Financial sustainability



Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

### Auditor considerations

Auditors consider the extent to which audited bodies show regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so it can continue to deliver services.

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## Vision, leadership and governance

Audited bodies must have a clear vision and strategy, and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.



### Auditor considerations

Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. Auditors also consider the effectiveness of governance arrangements for delivery, including openness and transparency of decision-making; robustness of scrutiny and shared working arrangements; and reporting of decisions and outcomes, and financial and performance information.

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## Use of resources to improve outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency and effectiveness through the use of financial and other resources, and reporting performance against outcomes.



### Auditor considerations

Auditors consider the clarity of arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of inequalities, and deliver continuous improvement in priority services.

## Best Value

[Ministerial guidance to Accountable Officers for public bodies](#) sets out their duty to ensure that arrangements are in place to secure Best Value in public services. Through our wider scope audit work, we consider the arrangements put in place by the Accountable Officer to meet these Best Value obligations.

## Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. These arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an [Audit Quality Framework](#).

The most recent audit quality report can be found at <https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202122>

## Independence

The Ethical Standards and ISA (UK) 260 require us to give the Board full and fair disclosure of matters relating to our independence. In accordance with our profession's ethical guidance and further to our External Audit Annual Plan issued confirming audit arrangements we note the following matter to bring to the Board's attention:

An Azets employee's father is a senior employee at NHS Fife (and disclosed in the Remuneration Report). We confirm that we have implemented internal safeguards to ensure this employee has no involvement in our audit work and that no members of staff working on the audit discuss any aspects of the audit with them.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. We confirm that all threats to our independence have been properly addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements.

Our period of total uninterrupted appointment as at the end of 31 March 2023 was one year.



## Audit and non-audit services

The total fees charged to the Board for the provision of services in 2022/23 were as follows. Prior year charges for the predecessor auditor are also shown for comparative purposes:

	<b>Current year</b>	<b>Prior year</b>
	<b>£</b>	<b>£</b>
Audit of NHS Fife (Auditor remuneration)	191,700	141,310
<b>Total audit</b>	<b>191,700</b>	<b>141,310</b>
Non-audit services	-	-
<b>Total fees</b>	<b>191,700</b>	<b>141,310</b>

The FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. No non-audit services have been provided to the Board.

## Appendix 2: Audit differences identified during the audit

We are required to inform the Board of any significant misstatements within the financial statements presented for audit that have been discovered during the course of our audit. The material misstatement discovered during the course of our audit and which has been adjusted for is summarised in the table below.

### Adjusted misstatements

Details of the item corrected following discussions with management is as below.

No	Detail	Assets	Liabilities	Reserves	SoCNE
		Dr / (Cr) £m	Dr / (Cr) £m	Dr / (Cr) £m	Dr / (Cr) £m
1.	National Treatment Centre – being recognition of current value at 31 March 2023 (impairment)	(9.106)		-	9.106
	Net impact on net expenditure				9.106
	Net impact on net assets				(9.016)

## Unadjusted misstatements

We identified no unadjusted misstatements during our audit.

## Misclassification and disclosure changes

Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies and estimation techniques adopted by the Board.

We identified a number of reclassification adjustments and some minor presentational issues in the Board's accounts, and these have all been amended by management. Details of all disclosure changes amended by management following discussions are as below.

No	Detail
1.	Remuneration Report - updating negative values to zero and adding commentary for the one negative CETV.
2.	Staff Report - rounding on % change column for consistency.
3.	Staff Report- reclassification of staff costs for junior doctors in training as inward secondees
4.	Governance Statement- updated to reflect Internal Audit Opinion
5.	Pension costs- updated to reflect SPPA recommended text for NHS Pension Scheme (Scotland) disclosure

Overall, we found the disclosed accounting policies, significant accounting estimates and the overall disclosures and presentation to be appropriate.

## Impact of prior year unadjusted misstatements

The table below sets out the adjustment identified during the prior year audit that was not made within the prior year financial statements. We are satisfied that this prior year unadjusted misstatement was resolved in 2022/23 and does not impact on the current year.

No	Detail	Assets	Liabilities	Reserves	SoCNE
		Dr / (Cr)	Dr / (Cr)	Dr / (Cr)	Dr / (Cr)
		£m	£m	£m	£m
1.	Year – end accruals (not fully supported by evidence)		0.7		(0.7)
Net impact on (income)/expenditure					(0.7)

## Appendix 3: Follow up of prior year recommendations

We have followed up on the progress the Board has made in implementing the recommendations raised by the previous auditor last year.

### Recommendations raised in 2021/22

**Integration Joint Board adjustments** IJB figures should be supported by detailed working papers and early agreement of figures in the accounts should be obtained from the IJB.

**Implementation date** 31 December 2022

Complete

Working papers provided to audit to support the IJB figures in the 2022/23 annual report and accounts.

**Year end accruals**

Management should implement controls to ensure all year end accruals are valid and adequately supported by working papers.

**Implementation date** 31 March 2023

Complete

Based on audit work performed in year; no issues identified over year-end accruals and supporting documentation over the accruals sample tested.

**Financial sustainability - unidentified savings**

NHS Fife should ensure that savings plans are developed identifying how the £10 million of unidentified savings in 2022/23 will be achieved.

**Implementation date** 30 September 2022

Complete

The Financial Plan at the start of 2022/23 which includes a programme of Financial Improvement and Sustainability aims to deliver £12.7m of savings in 2022/23. The Financial Improvement and Sustainability Programme continues to drive financial improvement across the organisation and the programme has

## Recommendations raised in 2021/22

been aided by the recruitment of a senior Finance Manager to support the progress.

As of 11 November 2022, the Scottish Government have requested NHS Fife deliver its financial plan which reflects a financial gap of £10.4m as a minimum, at the financial year end. Scottish Government have confirmed that they are returning to their 2018 commitment in relation to the Medium-Term Financial Framework regarding a three-year reporting period to deliver financial balance. A three-year financial plan was submitted to the Scottish Government in August detailing our plans to achieve financial balance by the end of the three-year period under review.

Ahead of the 2023/24 Financial Year, priority areas of focus and potential savings have been discussed between Scottish Government and the Boards, and plans are being developed to investigate these options along with increased regional collaboration.

## Recommendations raised in previous years and partially implemented in 2021/22

### Holiday pay accrual

NHS Fife should continue to develop the process used to calculate the accrual to ensure the medical and dental estimate is based on returns from a variety of services, reducing the risk that the estimate is subject to significant uncertainty.

**Implementation date:** 31 March 2023

Complete

Management continues to proactively engage with the services to ensure that any known uncertainties are minimised where possible.

### Recruitment of payroll staff

Recruitment issues in payroll services need to be addressed to prevent wider risks to service provision.

**Implementation date:** 1 November 2022

Complete

As of 1 February 2023, the NHS Fife Payroll Team were TUPE transferred over to NSS to form part of the South East Payroll Consortium. One of the main objectives of this project is to increase service stability to the payroll functions of the partner boards. It is anticipated that the recruitment and retention of payroll officers will improve over the coming years bringing greater resilience to the payroll function for the benefit of NHS Fife staff.

## Recommendations raised in previous years and partially implemented in 2021/22

### Transformation

We have noted progress with the development of a Financial Improvement and Sustainability (FIS) Programme. This has been established to set up projects to ensure long term financial improvement and sustainability in NHS Fife. Its objectives include establishing a clear medium term financial plan and developing savings plans for 2022/23.

NHS Fife needs to accelerate transformation by ensuring it is embedded within the FIS Programme and the development of a new Health and Wellbeing Strategy for Fife.

**Implementation date:**

Ongoing

Complete

Transformation retains its place on the NHS Fife agenda and is being focused on as part of the 2022/23 SPRA process and the development of the new Population Health and Wellbeing Strategy.





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